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FM SECSTATE WASHDC

TO AMCONSUL HONG KONG

AMEMBASSY JAKARTA

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FOLLOWING REPEAT NEW DELHI 10226 SENT ACTION SECSTATE SUVA
TOKYO WELLINGTON CANBERRA BANGKOK SEOUL TAIPEI KUALA LUMPUR
SINGAPORE VIENTIANE MANILA PORT MORESBY DACCA ISLAMABAD KABUL
COLOMBO KATHMANDU JAKARTA RANGOON HONG KONG JUL 5, 1978

QUOTE: LIMITED OFFICIAL USE NEW DELHI 10226

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TAGS: EGEN, ETRD, BEXP, ADB

SUBJECT: U.S. PROCUREMENT FROM ASIAN DEVELOPMENT BANK

REF: STATE 155300

1. AS REFTEL STATES, INDIA IS A MEMBER OF ADB BUT
DOES NOT BORROW FROM IT. WE HAVE FOUND ON OTHER IFI
PROJECTS, HOWEVER, THAT THE EARLY WARNING LIST AND
THE SERVICES OF MEPD IN WASHINGTON, AS WELL AS OUR
OWN CCP, MARKET RESEARCH REPORTS, REPORTS OF TENDERS,
PROJECT STATUS REPORTS AND MAJOR TRADE OPPORTUNITIES,
ALL OF WHICH INCLUDE IFI FINANCED PROJECT PROCUREMENT, HAVE
HAD MODERATE SUCCESS IN ALERTING US FIRMS

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TO THE SALES POTENTIAL IN THEM. UNLIKE OTHER ADB
AREAS, JAPANESE COMPANIES DO NOT DOMINATE THE MARKET
HERE, WHERE EUROPEAN COMPANIES HAVE BEEN ACTIVE FOR SO
MANY YEARS. THE STIFFEST COMPETITION FOR US AND OTHER
FOREIGN FIRMS, HOWEVER, ARE DOMESTIC COMPANIES. INDIA
IS A MAJOR INDUSTRIAL COUNTRY WITH BROAD AND SOPHISTI-
CATED CAPABILITIES TO SUPPLY EVEN MAJOR INFRASTRUCTURE

PROJECTS. FURTHER NARROWING THE SALES POTENTIAL IS THE FACT THAT MOST IFI FINANCED PROJECTS IN INDIA CONTAIN LITTLE IF ANY FX COMPONENTS.

2. INDIAN COMPANIES HAVE HAD SOME MEASURE OF SUCCESS AS SUPPLIERS TO ADB FINANCED PROCUREMENTS. SOME OF THIS RESULTS FROM THE GROWING NUMBER OF THEIR JOINT VENTURES IN THE ADB AREA. SOME OF THE GOODS AND SERVICES CONTAINED IN THE BIDS OF THESE COMPANIES ARE OF INDIAN ORIGIN. IN ADDITION, THE MINISTRY OF FINANCE HAS ONE INDIVIDUAL TASKED TO SCREEN EACH ADB PROPOSED PROJECT FOR THE COMMERCIAL POTENTIAL FOR INDIAN FIRMS. HE IS RESPONSIBLE FOR NOTIFYING DIRECTLY ALL INDIAN FIRMS THAT MIGHT BE IN A POSITION TO EITHER BID DIRECTLY, OR PARTICIPATING WITH OTHER POTENTIAL BIDDERS, IN SUPPLYING GOODS OR SERVICES FOR THE PROJECT.

3. DESPITE OUR NON-INVOLVEMENT IN ADB PROCUREMENTS HERE, REFTEL INVITES US TO CONTRIBUTE OUR VIEWS ON THE PROBLEMS OF INCREASING US SALES TO ADB PROJECTS. FROM OUR VANTAGE POINT IT SEEMS THAT THE PROBLEMS WE FACE ON PROCUREMENT FOR ADB PROJECTS ARE SOMEWHAT ANALOGOUS TO THE PROBLEMS OUR COMPETITORS MUST FACE IN IDB PROCUREMENT. IN THE ADB AREA, WE ARE OPERATING IN JAPAN'S BACKYARD, WHICH GIVES THEM ADVANTAGES LIMITED OFFICIAL USE

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THAT MUST APPEAR FORMIDABLE TO AN AMERICAN FIRM CONSIDERING AN INVOLVEMENT IN AN ADB FINANCED PROJECT. TO THE LACK OF INTEREST OF MANY US FIRMS IN EXPORTING GENERALLY, THEREFORE, THERE SHOULD BE THE OBSTACLES OF (A) A LACK OF CONFIDENCE THAT US FIRMS CAN COMPETE EVEN IF THE TIME, EFFORT AND MONEY IS EXPENDED FOR THIS PURPOSE, AND (B) THE LARGE NUMBER OF US EXPORTING FIRMS WHO HAVE ARRANGEMENTS WITH JAPANESE FIRMS FOR MARKETING IN THAT AREA.

4. IN ADDITION TO THE NORMAL ADVANTAGES ACCRUING TO THE JAPANESE IN AN AREA WHERE THEIR COMPANIES ARE MORE FAMILIAR WITH THE ECONOMIES AND THE BUSINESS PRACTICE OF THE BUYER AND ARE GEOGRAPHICALLY CLOSER AT HAND, THEY OFTEN ENJOY THE FLEXIBILITY OF BALANCING A BID ON A NEW PROJECT WITH OTHER INTERESTS THEY ALREADY HAVE IN THE BUYING COUNTRY.

5. THE FACT THAT AMERICAN CONSULTANT FIRMS WIN A HIGH LEVEL OF CONTRACTS MIGHT BE ATTRIBUTED TO THE NATURE OF THAT BUSINESS. THERE IS LESS FINANCIAL RISK FOR CONSULTANT FIRMS THAN OTHER BUSINESSES, THEY HAVE A HIGH REPUTATION AND THEY ARE MOBILE AND AGGRESSIVE. THE

FACT THAT INCREASED BUSINESS FOR US FIRMS DOES NOT RESULT FROM PROJECT SPECIFICATIONS DESIGNED BY US CONSULTANT FIRMS MIGHT BE TRACED TO THE GENERAL PATTERN OF INTERNATIONAL TRADE. US FIRMS PRODUCE EQUIPMENT AND MATERIALS FOR THE HUGE US MARKET AND ARE RELATIVELY INFLEXIBLE IN CHANGING THEIR STANDARDS FOR THE EXPORT MARKET. OUR INDUSTRIALIZED COMPETITORS, FAR MORE DEPENDENT ON TRADE, HAVE STRUCTURED THEIR PRODUCTION FACILITIES TO BE MORE FLEXIBLE, BIDDING WITH ALMOST EQUAL EASE ON SPECIFICATIONS DRAWN UP BY CONSULTANTS OF THEIR OWN COUNTRY AS WELL AS US SPECIFICATIONS.

6. IN HELPING TO OVERCOME THESE OBSTACLES, GOVERNMENT'S MAJOR CONTRIBUTION MUST BE IN CREATING A BETTER CLIMATE LIMITED OFFICIAL USE

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UNDER WHICH OUR COMPANIES CAN COMPETE - THROUGH TAX, TRADE, AND MONETARY POLICIES. GOVERNMENT COMMERCIAL SERVICES, WHILE RELATIVELY MARGINAL, ARE NONETHELESS NECESSARY AND COULD BE EFFECTIVE. TO IMPROVE BOTH POLICIES AND SERVICES, WE AGREE SEVERAL CASE STUDIES OF PREVIOUS ADB FINANCIAL PROJECTS WOULD BE HELPFUL.

7. MOST DEVELOPING COUNTRIES HAVE BOTH MEDIUM AND LONG TERM ECONOMIC DEVELOPMENT PLANS. WE BELIEVE THAT IT IS IN THESE WHERE THE SEEDS OF FUTURE PROJECTS CAN FIRST BE FOUND. US FIRMS CAN BE MORE EFFECTIVE IF THEY CONTACT LOCAL INSTITUTIONS WHEN THE PARAMETERS OF A PROJECT ARE JUST BEGINNING TO BE DISCUSSED WITHIN THE HOST COUNTRY. CONSEQUENTLY, WE BELIEVE MORE DETAILED REPORTING ON HOST COUNTRY PLANS BY FOREIGN SERVICE POSTS MIGHT BE HELPFUL. IN TURN THESE COULD BE TRANSLATED INTO MARKET OPPORTUNITIES BY THE EXPORT PROMOTION SERVICES IN WASHINGTON AND DISSEMINATED TO ENCOURAGE OUR FIRMS TO EXPLORE THE POTENTIALS IN THEM.

8. THE EXIMBANK IS ANOTHER AVENUE WE BELIEVE COULD BE USED TO BETTER ADVANTAGE IN ENCOURAGING US FIRMS TO EXPLORE ADB FINANCED PROJECTS. IN THE PAST, EXIM HAS TENDED TO FOCUS MUCH OF ITS RESOURCES IN AREAS WHERE WE ARE ALREADY COMPETITIVE, I.E., AIRCRAFT, OFFSHORE DRILLING EQUIPMENT AND NUCLEAR FACILITIES. HOWEVER, THE EXISTENCE OF EXIMBANK AS A CO-FINANCER OR GUARANTOR OF A PART OF A DEVELOPMENT PROJECT EVEN WHERE WE ARE LESS COMPETITIVE IN ITSELF ENCOURAGES GREATER INVOLVEMENT OF US BANKS AND COMPANIES IN THESE PROJECTS. INCREASED PARTICIPATION BY EXIM IN ADB PROJECTS, THEREFORE, SHOULD BE HELPFUL IN DRAWING IN MORE US FIRMS.

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9. THE PROBLEM OF ENCOURAGING SMALLER US FIRMS TO INTEREST THEMSELVES IN ADB PROCUREMENTS FACES THE SAME PROBLEMS INHERENT IN ENCOURAGING THEM TO MOVE INTO EXPORTING GENERALLY. THE SYSTEM OF EARLY ALERTS, TRADE OPPORTUNITIES, ACTIVITIES IN COMMERCE DISTRICT OFFICES, AND OTHER SERVICES PROBABLY COULD BE FURTHER IMPROVED. OUR COMPETITORS OVERCOME THIS PROBLEM NOT ONLY BY NATIONAL POLICIES THAT ENCOURAGE GREATER EFFORT IN EXPORTING, BUT THROUGH THE EXISTENCE OF LARGE AND EFFICIENT TRADING HOUSES CAPABLE OF REPRESENTING A WIDE SPECTRUM AND A LARGE NUMBER OF COMPANIES. UNLESS SOME SIMILAR ORGANIZATIONS ON THE US BUSINESS SCENE CAN BE FORMED, IT IS UNLIKELY SMALLER US FIRMS CAN EVER BECOME A MEANINGFUL FACTOR IN ADB PROCUREMENTS.

10. ONE SUGGESTION IN REFTEL IS TO ENCOURAGE MORE US FIRMS, AND ESPECIALLY SMALLER COMPANIES, TO WORK WITH US TRADING HOUSES AND TO PROVIDE MORE SERVICES TO THE TRADING FIRMS THEMSELVES. ANOTHER SUGGESTION WAS THAT MORE US FIRMS SHOULD BE ENCOURAGED TO WORK WITH US CONTRACTORS ON ADB PROJECTS. WE BELIEVE NEITHER OF THESE AVENUES PROVIDES AN EFFECTIVE MEANS OF INCREASING OUR SALES TO ADB PROJECTS. BIG US TRADING COMPANIES HAVE LARGELY DISAPPEARED FROM THE INTERNATIONAL SCENE OVER THE LAST 30 YEARS. THOSE THAT STILL EXIST CANNOT BE COMPARED TO THE SIZE AND EFFECTIVENESS OF THE TRADING HOUSES OF OUR COMPETITORS, ESPECIALLY THE JAPANESE. TO REVITALIZE THEM TO A LEVEL NECESSARY FOR EFFECTIVELY COMPETING, EVEN IF POSSIBLE, WOULD LITERALLY REQUIRE YEARS. AT THE SAME TIME, AS REFTEL STATES, US CONTRACTOR FIRMS ARE NOT COMPETITIVE IN THE ADB AREAS.

11. WE BELIEVE THE POSSIBILITY OF USING OUR COMMERCIAL BANKS FOR THE SAME PURPOSE SHOULD BE EXPLORED. THE FUNCTION THAT MAKE THE TRADING HOUSES OF OUR COMPETITORS SO EFFECTIVE IS THEIR ABILITY TO "PACKAGE" APPROPRIATE

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FIRMS, INCLUDING PARTICIPATING FINANCIAL INSTITUTIONS FOR EACH INDIVIDUAL PROJECT. THEY HAVE THE FINANCING, THE COMMUNICATIONS AND THE LIAISON WITH A WIDE SPECTRUM OF THEIR OWN COMPANIES WHICH THEY THEN USE VERY EFFECTIVELY IN PACKAGING THEIR BIDS. IN OUR VIEW, THE US BUSINESS ORGANIZATION WHICH MOST CLOSELY RESEMBLES THIS KIND OF CAPABILITY US COMMERCIAL OPERATING

OVERSEAS. THERE ARE FEW, IF ANY, LEGAL IMPEDIMENTS PRE-
VENTING OUR COMPANIES FROM ORGANIZING IN THIS WAY
OUTSIDE OF THE US. A STUDY ON POLICIES AND SERVICES
NEEDED TO ENCOURAGE OUR COMMERCIAL BANKS TO PROVIDE
THIS FUNCTION FOR ADB PROJECTS MIGHT PROVE USEFUL. GOHEEN
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